

## NCUA Board Member Debbie Matz

### Keynote Speech to New York State Credit Union League 85<sup>th</sup> Annual Meeting

#### Convention Theme: “Principles Above Profits”

New York City  
May 20, 2005

- Thank you, John, for inviting me back to your Annual Meeting.
- It's so exciting to be back in the *greatest city in the world!* Some would also say it's the most *pricey*, but take it from this native New Yorker: There's always a way to find a *bargain* –as a credit union member demonstrated recently:
  - A woman walked into a *New York City credit union* to borrow money for a *2-week vacation*. When a loan officer asked how she would secure the loan, she pointed to her brand-new *Ferrari*. The loan officer accepted the Ferrari as collateral and parked the car in the *credit union's underground garage*.
  - 2 weeks later the woman returned to the credit union and repaid the loan – with *interest of 10 dollars and 50 cents*. When she was about to leave, the loan officer asked why she *borrowed money* for the trip. Apparently, he had checked on her accounts and discovered that she was a *multi-millionaire!*
  - The woman replied, “Where else can I *park a new Ferrari* in *New York City* for *10 dollars and 50 cents* – and know it will still *be there in 2 weeks?*”
- This is just another example of New York ingenuity! That's why I *always* try to keep in touch with what's happening in *New York*. New York is always one step ahead!
- In my 3 years on the NCUA Board, I have tried to visit with New York credit unions often so I can keep up with the innovative ways that you are serving your members. I can say without a doubt that credit unions in the *rest of the country* could learn a *great deal* from *New York* credit unions!
- Compared to other states, New York credit unions have a large amount of assets – but you also have an amazing amount of *heart!* There's nothing I enjoy more than hearing about the *dedication* of your *CEOs, staff* and *volunteers* to the philosophy of “People Helping People.”
- New York credit unions can take pride in your *rich history* and *enduring philosophy*. I congratulate the League on this 85<sup>th</sup> Annual Meeting.

- *Just think, 85 years ago:*
  - A new house cost \$6,000;
  - A new car cost \$500; and you could buy a gallon of gas for 13 cents.
  - But with the average worker earning only \$2,000, a house and a car were luxuries that many Americans could *not* afford.
- Millions of hard-working people clearly had a *need* for affordable credit – which is why an up-and-coming *New York State Senator* named *Franklin Delano Roosevelt* sponsored the *New York Credit Union Act*.
  - At the same time the *League* was being organized, the U.S. Congress passed the 19<sup>th</sup> Amendment which gave women the right to *vote*.
- But, the *League* didn't need the 19<sup>th</sup> Amendment to treat women as equals. From day one, *New York credit unions welcomed women, immigrants, and minorities as voting members with equal rights*. They gave *everyone* in their field of membership the opportunity to achieve the *American dream*.
- Credit union organizers embraced the philosophy that you still cherish today: regardless of a person's *gender, nationality, or income*, each person is a *valued member*.
- The first credit unions, including *Municipal Credit Union* right here in New York City, filled *unmet needs* for people who could *not* get loans from banks – people who had nowhere else to turn but to *loan sharks* who made *profits* from their pain.
- Much has *changed* since 1920, but the *founding principles* of *credit unions* remain.
- And today, I believe the *need* for credit unions is as *strong as ever* – because there are *still millions* of Americans who are *not being served* by insured financial institutions. These people are being preyed upon by *modern-day loan sharks*. Today they are known as payday lenders, check cashers, pawn shops, rent-to-own stores, or just plain *predatory lenders*.
- So I commend *Bill Mellin* and the *League* for organizing this convention with a theme that is truly *timeless*: “*Principles Above Profits*.” After 85 years, the *principles* upon which New York credit unions were *founded* have clearly stood the test of time. And I commend *Bill* for his *extraordinary leadership*...
- In my remarks today I'm going to focus on several *concerns* I have for the *future* of credit unions.
- But first I want to assure you that the credit union system *today* – especially the New York credit union system – is very *safe, sound* and *secure*.

[Slide 1: Net Worth Ratios]

- Nationwide, credit unions' *net worth* ratio is a healthy *11%*;
- The net worth ratio for credit unions in *New York* is even *healthier: 11.8%*.

[Slide 2: Delinquency Ratios]

- Nationwide: *Delinquency* is *amazingly low: 0.72%*;
- In *New York*, delinquency is even *lower: 0.62%*.

[Slide 3: Charge-Off Ratios]

- More good news: *Charge-off* rates at *New York* credit unions (0.41%) are also better than the national average (0.53%).
- These low delinquency and charge-off rates reflect the strong relationships credit unions have built with *existing* members.
- However, credit unions have not been as successful in reaching *new* members – which leads to my *concerns for the future*:

[Slide 4: Concerns for the Future]

- Now don't be alarmed by the graphic on this slide. The credit union system is *not* a ticking time bomb.
- But as you do your out-year planning, these are *serious issues* to keep in mind.
- All of these issues are *related*:
  - *Slow membership growth* could lead to the *disappearance of small credit unions*;
  - *The disappearance of small credit unions and reputation risks* could lead to *taxation*.

[Slide 5: Slow Membership Growth]

- Nationwide, in the past several years, membership growth has been stagnant at about *2%*

- In *New York*, membership growth *had* been much stronger – *until last year*, when it was *only 1.5%*.
- I'm concerned that credit unions *cannot* maintain their safety and soundness if they sustain this slow membership growth far into the *future*.
  - With businesses downsizing and members aging, existing members will *not be around forever*.

[Slide 6: Age Distribution of CU Members]

- You can see from this chart that *more than half* of all adult credit union members have *aged beyond* their *prime borrowing years* – ages 25-44.
- And the tiny orange slice on the top right shows the *young* members. Clearly, there are *very few* young members to replace these aging members:
  - *Young adults* (ages 18-24) – the members who are about to *enter* their *prime borrowing years* – represent only 5% of adult credit union members!

[Slide 7: Membership from Different Ethnic Groups]

- Unfortunately, it's not just age diversity which is a concern. Most credit unions are not increasing the *ethnic* diversity of their members either.
- This is a concern because America's demographics are changing:
  - In little more than a decade, America's *non-Caucasian* population has *exploded* by 60%.
  - Yet the *fastest-growing* groups – *Latinos* and *Asians* – are *under-represented* in credit union memberships.

[Slide 8: Population Growth Projections through Year 2020]

- This does not bode well for the *future*, because by the Year 2020, America will be even *more diverse*.
- So to *grow membership* in the *future*, credit unions need to reach out to people of different ethnic backgrounds *today*.
- How can you do this? You can start by talking to your peers! Many New York credit unions have implemented ambitious plans to serve diverse new groups outside their traditional membership base.

- You'll be amazed at the innovative ideas you can pick up just from talking with some of the people in this room!
- For example, if you talk with *Kirk Kordeleski* and the staff of *Bethpage* Federal Credit Union, you'll hear how this credit union has made a real difference in the *Latino* community.
  - Bethpage staff and volunteers invested countless hours networking with Latino community leaders, donating time and money to *43* community groups.
  - Because they took the time to understand the community's *needs*, when Bethpage opened a *new branch*, residents were ready to *move* their business to the *credit union* – and these new members brought in *millions of dollars* of new business!
- Opportunities to grow membership are all around us...
- But credit unions having the *most difficult* time growing membership are *small* credit unions...
- This leads to my *next concern*:

[Slide 9: Disappearance of Small CUs]

- Each year, we're *losing more small credit unions* through mergers and liquidations – *one per business day!*
- *Last year alone, New York lost 28 small credit unions.*
- The loss of small credit unions is a *concern* for the *entire credit union community*, because small credit unions:
  - tend to be located in neighborhoods where there are *no other insured financial institutions*
  - provide alternatives to *predatory lenders*
  - serve “people of *modest means*” (your statutory mandate)
  - are the *icon* of credit unions, especially to some state and federal legislators who may be thinking about *taxing* credit unions.
- When a small credit union merges out of existence, the most common reason I hear is that they could not offer enough *services* to meet members' needs.

[Slide 10: Potential Partners]

- So whenever I talk with small credit union officials, I encourage them to seek outside resources and *partner* with organizations that can help them offer new services.

- Potential partners are everywhere.
  - At the federal level, you can work with *NCUA*:
    - Our new *Office of Small Credit Union Initiatives* has *\$1 million* available for *Technical Assistance Grants*. These grants can help low-income credit unions:
      - buy new *computers*
      - hire *interns*
      - and get needed *training*
    - We also coordinate *free training workshops* for small credit unions with Region 1 and the New York League
  - There are *other federal agencies*:
    - SBA... USDA... HUD...
  - You can join a *CUSO* or form a *Consortium*:
    - This can help small credit unions offer *any* service being offered by large credit unions.
    - *The Lower East Side People's Federal Credit Union, Union Settlement, Homesteaders, and Bushwick Co-op* created a consortium so they could *participate* in each other's loans. Together, these 4 small credit unions have made *\$2 million* in *MBLs*! And they're reaching *new* members who could *not* get business loans anywhere else.
  - Another obvious potential partner for small credit unions, one which is often overlooked, is a *larger* credit union. Larger credit unions can bring specialized lending expertise and economies of scale to small credit unions.
    - For example, recently *United Nations Federal Credit Union* offered to help the Lower East Side People's provide a wider array of *mortgages* to more members.
  - Yet some officials from small credit unions tell me they're reluctant to partner with a larger credit union. They fear they may be opening the door to a *merger*. I can understand their concerns, so I always advise credit unions, if you're not sure where to turn for help, *ask your league*.
    - And you're so fortunate. The New York League provides a wealth of programs and has an outstanding staff to assist you in leveraging available resources as well as providing information on partnering opportunities.
- And for those of you here from *larger* credit unions, I challenge you to help a small credit union in your community:
  - Donate *equipment*

- Provide *training*
- Assist with *computer maintenance*
- Offer *staff resources* for back-office work
- A great example is *Joe Herbst* and his team at *Empire Corporate*. They are doing whatever they can to assist small credit unions – everything from providing *ALM advice* to helping small credit unions reconcile their *corporate account*. Efforts like Empire's can help *prevent* record-keeping problems which are a major stumbling block for many small credit unions.

[Slide 11: Reputation Risks]

- Another serious concern is *reputation risk*.
- I believe the 2 largest potential threats to credit unions' reputation are from *indirect lending* and *bounce protection*.

[Slide 12: Indirect Lending]

- More than *1,500* credit unions have indirect lending programs. These are divided between credit unions that contract with auto dealers on their *own*, and credit unions that rely on *vendors*.
- I'm *especially* concerned about those which rely on *vendors because* some of these credit unions are *not* doing *due diligence*. There are 3 important areas requiring vigilance.
  - First: You must really know the *Vendor*:
    - Have you seen the vendor's *financials*? If a vendor won't share their financials with you, don't do business with them!
    - Who *insures* and *re-insures* the loans?
    - How much will they *collect* on bad loans?
    - Are the *fees* excessive?
    - Are the claims they make about their success accurate?
  - Second: You must really know the *Auto Dealers*:
    - Do they understand your credit union's philosophy?
    - Are they selling excessive "*add-ons*"?
    - Are they providing accurate information to your members?
  - Third: You must really know the *Loans in your portfolio*:
    - You must do *due diligence* on *each loan*...
    - *Do not relinquish your loan approval authority!*
    - I repeat: *Do not relinquish your loan approval authority!*

[Slide 13: Indirect Lending Exposure]

- For many credit unions making indirect loans, *volume is out of control*.
- This table shows that very clearly. At the credit unions doing indirect lending, indirect loans account for:
  - 14% of their assets
  - 21% of their loan portfolios
  - 133% of their *net worth*
- It's difficult to control the loan volume or quality when *third parties* decide which loans will go to the credit union!
- As a result, if there is a systemic problem in their indirect lending portfolio, it will be a *major threat* to the credit union's *safety and soundness*.
- So I urge you – to protect the *future* of *your* credit union – do your due diligence and be sure that the third parties you use are *reputable*, that they deliver on all the promises made to you during their sales pitch, and that doing business with them will not *jeopardize* the *reputation* of your credit union.

[Slide 14: “Bounce Protection” Risks]

- Another risk to credit unions' *reputation* is “*Bounce Protection*” (a.k.a. “Overdraft Privilege,” “Courtesy Pay,” or some other euphemism)
  - This is a service which covers checks that would have bounced, but in many cases involve substantial *fees*.
- Bounce protection can be useful... if marketed *responsibly* and within *limits*.
- But the way some credit unions market bounce protection, they *exploit* the *least creditworthy* members and encourage *irresponsible* behavior.
  - Instead of teaching members to become better consumers, credit unions with aggressive marketing tactics encourage members to *overdraw* their checking accounts, or *worse*, use *ATMs* to withdraw more cash than they have available!
- I understand that bounce protection can be very *profitable* – but this is a perfect real-life example of why credit unions should put “*Principles Above Profits!*”
- One of the credit union movement's *most important assets* is its *pro-consumer reputation*. Once that's *tarnished*, it will be *almost impossible* to *restore* – which leads to my *next concern*:

[Slide 15: Taxation]

- As a regulator, I'm concerned about *taxation* because if credit unions are taxed, the taxes would cut into retained earnings. This would affect *safety and soundness*.



- I believe that taxation *definitely* can be prevented. But *each of you* must do what you can to *ensure the survival* of *small* credit unions and to *maintain the pro-consumer reputation* of *all* credit unions.
- In addition, it's crucial to reach out to *everyone* in your FOM, especially if you're a *large* credit union or have a *community charter*.
- Unfortunately, to some *lawmakers*, large credit unions look more and more like *banks*.
- Therefore, lawmakers want to know what *all* credit unions are doing to help "people of modest means" – especially those constituents who are *not being served* by other insured financial institutions.

[Slide 16: Defending CUs' Tax Exemption]

- Again, New York credit unions are fortunate. Bill and his staff – in particular, *Mike "Luh-NOT-ee"* and *Amy Kramer* – work tirelessly to carry the credit union message.
  - Whether it's working with *consumer groups* or walking the halls of *Congress*, they take every opportunity to make sure that lawmakers from Albany to Washington understand and *appreciate* the difference *credit unions* make in the lives of their constituents.
- Although *delivering* the message is vitally important, you, the credit union officials, *provide* the message which will ensure the continuation of your tax exemption.
- All across the state, credit unions are providing small loans, financial education, and other needed services to help New Yorkers *break free* from the grip of predatory lenders.
- One outstanding example is *Volunteer Income Tax Assistance* (VITA):
  - This is *such a valuable service* for people of modest means. Each year, about 15% of low-income workers do not claim the Earned Income Tax Credits they are due -- leaving *\$7 billion* in unclaimed refunds on the table.
  - But each year, more *New York credit unions* teach low-income families how to *keep* more of their hard-earned money. At VITA sites hosted by credit unions, tax returns are prepared *free of charge*, filers receive all the refunds they are due, and their refunds are directly deposited into credit union accounts with *no fees*.

[Slide 17: PALS]

- In my travels, I have seen credit unions doing many wonderful things. But sometimes leaders of one credit union don't know what *other* credit unions are doing.
- That's why I launched the initiative I call *PALS*...

- I've hosted *10* PALS workshops around the country, but the one in Rochester, *New York* was not only the *largest*, it was an *amazing* example of credit unions' *dedication* to helping the people who need them *most*.
- The workshop's theme was "*Serving the Underserved Without Losing Your Bottom Line*," and it was co-hosted by the *New York League*, the *Federation*, and The *Summit* Federal Credit Union.
  - It was held on *Columbus Day* weekend and, *incredibly*, when they could have been enjoying time off with their families, more than *300* New York credit union staff and volunteers attended the workshop.
    - This *extraordinary* turnout was a tribute to New Yorkers' commitment to the *founding principles* of credit unions.
  - But what they did *before* and *after* the workshop was even *more amazing*:

[Slide 18: Photo of Hillary Clinton and PALS Rochester Speakers]

- When she agreed to deliver the keynote address, Senator *Hillary Clinton* challenged New York credit unions to provide a *large financial commitment* to serving the underserved.
- True to form, *New York credit unions* met the challenge head-on!
  - Led by *Mike Vadala* of The *Summit* Federal Credit Union and *Tim Pryor* of *ESL* Federal Credit Union, New York credit unions pledged *\$150 million* to fund *affordable mortgages* in *underserved areas*. In addition, they pledged another *\$2 million* for renters who need *emergency loans* to avoid losing *heat, electricity*, and other living necessities.
  - Together these funds will *change the lives* of *9,000 families* in underserved areas.
- This is what *credit unions* are *all about* – providing *affordable financial assistance* to members and *reaching out* to serve *people from all walks of life*:
  - people who come from different *cultures* and speak different *languages*;
  - people who are *just starting out* in the workforce, who need help making financial decisions that will impact the rest of their lives;
  - people who have fallen on *hard times*, from *single mothers* to *displaced workers* who are *struggling* to make ends meet;
  - and people who are working hard to achieve their *dream*, whether it's opening a *small business* or owning their first *home*.

- Thanks to your efforts, this dream can come *true* for *millions* of *credit union members*. You should be *proud* that *New York credit unions* are demonstrating *each and every day* that you are truly *improving the lives* of your members – and you do this by putting “*Principles Above Profits*.”
- As long as you stay true to the *principles* embedded in your heritage, *you can overcome all of your current challenges*. And, *you can build an even more promising future*. **Thank you.**